Registers of Scotland

Annual report on the 2012/13 audit

AUDIT SCOTLAND

Prepared for Registers of Scotland and The Auditor General for Scotland

October 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

2012/13

The Scottish public sector is experiencing significant financial challenges in providing expected levels of service within the agreed financial framework. In 2012/13 we assessed the key strategic and financial risks being faced by the Registers of Scotland (RoS). We audited the financial statements; reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

RoS underpins the property market by administering a land registry system that provides security of title to registered properties, along with ready access to up-to-date information on property transactions. The Scottish Government has recognised RoS's key role in underpinning economic and social stability in Scotland. The work undertaken by RoS is complex and the organisation is dependent on IT for many of its key processes.

Financial statements

We have given an unqualified audit opinion on the financial statements for 2012/13. We have also concluded that in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

Financial position and use of resources

RoS reported a loss of £2.5 million for the year ended 31 March 2013 (2012: £10.2 million loss). The reported loss for 2012/13 included £4.2 million of non recurring costs in respect of restructuring costs (2012: £3.7 million restructuring costs and £4.0 million in respect of permanent dimunition of non-current assets).

RoS has reported operating losses in the previous 4 years and over the last 5 years retained profit reserves have fallen from £144 million to £61 million. Action has been taken to increase income and reduce costs as part of a strategy to achieve financial balance by 2014/15. This is a significant challenge for RoS given current market conditions and operational uncertainties.

Governance and accountability

In 2012/13 RoS had sound corporate governance structures in place. We examined the organisation's key financial systems underpinning the organisation's control environment and concluded that they operated sufficiently well for us to place reliance on them.

We reported in 2011-12 that RoS did not have appropriate arrangements in place to manage the risks arising from disaster recovery and the Accountable Officer has identifed this as a key risk in the Governance Statement. RoS has carried out some development work in this area to improve recovery resilience.

Performance and best value

RoS reported mixed success in achieving key performance targets set for 2012/13. It reported that it achieved two of the three targets set by Scottish Ministers, namely the delivery of 3% cash-releasing efficiences and a 5% reduction in headcount; but it did not achieve the target of a 5% increase in income from commercial activities. RoS reported that it achieved three of six internal targets set by the Keeper.

Outlook

The current RoS corporate plan envisages that it will return to break even position in 2014-15. This is based on senior management's assessment of the market place and other business intelligence gathered from financial and government institutions.

The Keeper has a commitment to review fees every two years and the last review was completed in 2012 when the Scottish Ministers decided not to alter RoS fees. The next review will be in 2014 within the period of the current plan as RoS and Scottish Ministers will introduce new fee structures when the Land Registration etc (Scotland) Act (LRA) is implemented in November 2014. The review will take account of RoS plans to modernise and improve its operational systems which will lead to significant changes in the way it delivers its services in preparation for the implementation of the LRA.

RoS acknowledge that the next two or three years are going to be extremely challenging as they also prepare for their role as the collectors of Land and Buildings Transaction Tax (LBTT) which is scheduled to come into effect in April 2015.

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of Registers of Scotland (RoS). The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising.

2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.

3. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

4. We have issued a number of reports in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our reviews.

5. Appendix B is an action plan setting out the high level risks we have identified from the audit. Management have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that RoS understands its risks and has relevant and appropriate arrangements in place to manage these risks. The Accountable Officer and other members of the board should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.

6. This report is addressed solely to the Registers of Scotland and the Auditor General and no responsibility to any third party is accepted. In line with the principles of transparency and public reporting, this report will be published on the Audit Scotland website after it has been considered by the RoS audit committee.

7. The assistance and co-operation given to us during our audit is gratefully acknowledged.

Financial statements

8. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources available to them and their performance in the use of those resources.

9. We are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
   - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
   - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
   - the regularity of the expenditure and income.

10. We review and report on, as appropriate, other information published with the financial statements, including the directors' report, management commentary, governance statement and the remuneration report. This section summarises the results of our audit on the financial statements.

Audit opinions

11. We have given an unqualified opinion that the financial statements of Registers of Scotland for 2012/13 give a true and fair view of the state of the body's affairs and its net operating cost for the year.

12. RoS is required to follow the 2012/13 Government Financial Reporting Manual (the FReM) and we confirmed that the financial statements have been properly prepared in accordance with the FReM. We also confirmed that relevant parts of the remuneration report had been properly prepared and that information given in the director's report and management commentary was consistent with the financial statements.

13. We also reviewed the Governance Statement and concluded that it complied with Scottish Government guidance.

Regularity

14. We confirmed that the expenditure and income in the financial statements was in accordance with applicable legislation and Ministerial guidance.

Going concern

15. This is the fifth consecutive year that RoS has reported an operating loss, over which time retained profit reserves have fallen from £144 million to £61 million. Under current financial plans further losses are anticipated in 2013/14, but RoS expects to return to a break even position in 2014/15. After consideration of the retained profit reserves at 31 March 2013 and the planned financial position in 2014/15 we have concluded that it was appropriate that RoS

prepared its financial statements on a going concern basis. We provide further comment on RoS's financial position at pages 10- 13 in this report.

Accounting issues

Accounts submission

16. The financial statements were submitted for audit on 10th May and the final audit commenced on 13th May in accordance with a pre-agreed timetable. The draft financial statements were supported by a comprehensive set of working papers and schedules and audit testing was substantively complete by the 8th June.

17. The draft financial statements (version 3) were finalised in late August and signed by the Accountable Officer on 18 September 2013. The audit opinion was signed on 24 September 2013.

18. We identifed a monetary error of £52,000 in the calculation of Work in Progress which if adjusted would have a net effect of reducing the loss and increasing net assets for the year by £52,000. We agreed with management that the amounts were not material to the financial statements. All other monetary errors identified during the audit process were corrected in the accounts.

Calculation of Work in Progress

19. RoS uses a suite of complex interlinked Excel workbooks to calculate the value of work-in-progress at year end. Our examination of the structure and formulas in the workbooks identified a linking error that led to an understatement of £52,000 in the account figures. We noted that the spreadsheets are designed in a logical manner with built in checks for reasonableness but there are a significant number of sections where direct manual input is required. We note that one staff member is primarily responsible for the maintenance and roll forward of these workbooks. We consider that RoS should develop comprehensive desk instructions to help avoid business continuity risks that arise from this. RoS has agreed to review the structure and formulas used in the spreadsheet to minimise the risk of future error.

Format of Statement of Comprehensive Income (SoCI)

20. RoS's accounts largely follow the model financial statements for accounts prepared under the Government Financial Reporting Manual (FReM). The model financial statements do not provide a SoCI format appropriate to RoS's operations as a Trading Fund. We consider that a commercial format, with a clear identification of RoS's cost of sales, would provide a more appropriate presentation. RoS has agreed to review alternative formats for the SoCI in 2013/14 and we will liaise with finance staff on this matter at the audit planning stage for 2013/14.

Disclosure of Contingent Liabilities Note 17

21. The disclosures on Contingent Liabilities in the draft account did not fully reflect contingent liabilities for indemnities not included in Provisions. RoS amended Note 17 to the accounts to disclose the existence of unquantifiable contingent liabilities in relation to potential future indemnity claims.

Early Retirement Provision

22. The FReM requires that future cash flows associated with significant provisions should be discounted using discount rates approved by Treasury. RoS does not currently discount the early retirement provision although the cash flows will continue for more than 5 years. Having discussed with the Director of Finance and the Chief Accountant and reviewed estimates prepared by them, we note that the effect of this is that provisions and operating losses are around £100,000 to £150,000 more than they would be if discounting were applied. We have agreed that the impact of this is not material to the 2012/13 accounts. RoS will review the position for 2013/14.

Refer Action Plan Point No. 1

Disclosure of Losses Note 18

23. In line with accounting standards, RoS provided for estimated costs associated with the early exit from the Strategic Partnership Agreement and settled the liability at £1.2million in 2012/13. The Scottish Public Finance Manual (SPFM) also requires public bodies to disclose losses and special payments that meet defined criteria over prescribed thresholds in the year in which they are settled. RoS added additional disclosures to Note 18 to show the payment to the former provider separately in line with SPFM.

Outlook

24. There are no significant changes to the 2013/14 FReM that are expected to have an impact on RoS annual financial statements.

Financial position

25. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

26. We consider whether audited bodies have established adequate arrangements and examine:
   - financial performance in the period under audit
   - compliance with any statutory financial requirements and financial targets
   - ability to meet known or contingent, statutory and other financial obligations
   - responses to developments which may have an impact on the financial position
   - financial plans for future periods.

27. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Annual outturn

28. RoS reported an overall loss of £2.4 million for the year to 31 March 2013 compared with a loss of £10.2 million for the year to 31 March 2012. Operating income decreased by £0.8 million to £57.4 million (2012: £58.2 million); income from Transfers of Part fell by £2.9 million while income from Dealings with Whole increased by £2.2 million. Administrative costs decreased by £13.5 million to £58.2 million (2012: £71.7 million), the main reasons being: a reduction of £1.9 million in staff costs following a staff restructuring programme; a reduction of £7.5 million in equipment and services costs and no impairment or other one-off charges affecting the financial accounts.

Budgetary control

29. RoS's 2012/15 corporate plan forecast an operating deficit of £8.4 million for 2012/13. This was revised downward subsequently as a number of items of expenditure envisaged when the budget was set did not require to be incurred during the year. The actual deficit for the year, including non-recurring expenditure on restructuring costs, was £2.5 million, which was in line with in year forecasts that RoS made on a quarterly basis during the financial year.

30. We reviewed the RoS budget setting and monitoring arrangements and found that senior management received budget monitoring reports throughout the year with adequate explanation of key variances against budget.

Financial position

31. The Statement of Financial Position shows a net position of £66.9 million at 31 March 2013 (£69.2 million at 31 March 2012). The overall decrease of £2.4 million is due to a combination

of significant movements within current assets and current liabilities, i.e. a reduction of £9.2 million in cash and cash equivalents, a reduction of £1.8 million in work in progress and a net decrease of £7.8 million in current liabilities.

32. Exhibit 1 shows how the £2.3 million reduction is represented in the movements in reserves as shown in the Statement of Financial Position.

Exhibit 1: Analysis of RoS reserves for year ending 31 March 2013

Description	31 March 2013 £million	31 March 2012 £ million	2011-12 Reserves Movement £ million
Capital Loan	2.4	2.5	(0.1)
Retained Profits	61.0	63.5	(2.5)
Revaluation Reserve	3.5	3.2	0.3
Total Reserves	66.9	69.2	(2.3)

Source: 2012-13 audited financial statements

33. The loss of £2.5 million after interest receivable and payable is reflected in the decrease in Retained Profits reserve and is consistent with RoS financial objectives over its current corporate plan period.

34. RoS has reported operating losses in each of the past five years and over that period retained profits have fallen from £144 million to £61 million. Action has been taken to increase income and reduce costs as part of a strategy to achieve financial balance by 2014/15. This is a significant challenge for RoS given current market conditions and operational uncertainties.

Refer Action Plan Point No. 2

Public reporting

35. Commentary on the underlying financial picture is summarised in the annual report sections of the annual report and accounts document. The document is available on the RoS website at www.RoS.gov.uk

Capital investment and performance 2012/13

36. RoS's budgeted capital expenditure for 2012/13 totalled £13.5 million; £10 million for IT projects, £3.5 million for estates and £0.009 million for procurement and communications. Actual expenditure on capital was £3.5 million; £2.8 million for the Meadowbank House (MBH) project and £0.7 million for IT. The underspend was largely against the IT budget, where RoS decided not to commission any further development work from its IT partner. There was also a £0.7 million underspend on the MBH project which was due to delays in the work schedule.

37. The 2012/13 corporate plan shows that £6 million of the capital budget has been carried forward. RoS will be undertaking a review of planned capital expenditure (following the decision to end the IT service contract) and this will be reflected in the Corporate Plan for 2013-16.

Financial planning to support priority setting and cost reductions

38. The Statement of Financial Position shows a net position of £66.9 million at 31 March 2013 (£69.3 million at 31 March 2012). The overall decrease of £2.4 million is due to a £10.6 million reduction in non-current assets plus a combination of movements on current asset balances, the main ones being a reduction of £9.1 million in cash and cash equivalents, a decrease in work-in-progress of £2.0 million and a decrease in trade payables and provisions of £7.8 million. Exhibit 2 below summarises RoS's recent financial results and exhibit 3 summarises the projected results included in the RoS Corporate Plan for 2013-16.

Exhibit 2: Financial results 2008/09 to 2012/13

Description	2008/09 £ million	2009/10 £ million	2010/11 £million	2011/12 £ million	2012/13 £ million
Total revenue	55.6	43.5	48.6	61.4	55.7
Operating Costs	65.7	68.2	78.4	71.7	58.2
Operating Profit/loss	(10.1)	(24.7)	(29.8)	(10.3)	(2.6)
Total Reserves	135.6	108.9	79.4	69.3	66.9

Source: audited financial statements 2008-09 to 2012-13

Exhibit 3: RoS Financial projections

Description	2012-13 £'000s	2013-14 £'000s	2014-15 £'000s
Total Revenue	61,950	57,454	57,163
Total admin costs	70,450	59,743	56,937
Operating surplus/loss	(8,500)	(2,290)	225
Cash Reserves	52,353	48,327	53,064

Source: RoS Corporate Plan 2012-15

Workforce reduction

39. RoS's strategy for cost savings included a planned reduction in head count and staff costs through a voluntary exit scheme offered to staff over the last three years. A total of 152 staff left in 2012-13 under the terms of the scheme compared with 126 in 2011/12 and 128 in 2010/11.

40. The voluntary exit scheme has had an impact on operating costs in the period from 2011/12, with staff costs reducing by £3.6 million in 2011/12 and £1.9 million in 2012/13.

Outlook

41. The 2013-16 corporate plan anticipates continued losses in 2013/14, albeit on a reducing level compared to previous years, and a return to profitability thereafter, as summarised in Exhibit 3 above.

42. RoS’s corporate plan to 2016 recognises that the current economic situation and uncertainties about future activity levels in the housing market make forecasting revenue difficult over the next three years. In addition RoS faces challenges in managing the development of new systems and structures to support the tight timetable for the implementation of the Land Registration etc (Scotland) Act 2012 in November 2014 as well as developing systems in liaison with Revenue Scotland for the collection of the Land and Buildings Transactions Tax which comes into effect in April 2015.

43. Although RoS's current cash reserves are available to fund the costs of these and other business change projects, the extent of change required to tight deadlines will place significant demands on the organisational capacity and change management capability of the organisation.

Governance and accountability

44. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.

45. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

46. Consistent with the wider scope of public audit, we have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:

- corporate governance and systems of internal control
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption

47. In this part of the report we comment on key areas of governance.

Corporate governance

Overall effectiveness

48. Overall, we found that RoS's corporate governance arrangements were in line with that required by the Scottish Public Finance Manual, and operated satisfactorily during 2012-13.

Processes and committees

49. The RoS Board is chaired by the Chief Executive (who is also the Keeper - a statutory office holder) with a membership of 9 executive directors and 4 non executive directors. It functions in an advisory capacity and supports the Chief Executive/Keeper and the accountable officer in their respective roles. The Board is supported by the Audit Committee (which advises on corporate governance arrangements including risk management, performance management, systems of internal control and assurance arrangements) and the Executive Management Team.

50. There were a number of changes in the composition of the Board in 2012/13. A new Director of Finance took office in October 2012 and 2 new non-executives joined the board in November 2012 to replace individuals whose periods of service had ended.

51. The Audit Committee makes an important contribution to the governance of the organisation. It meets 4-5 times a year and had four members during 2012/13. One member, the chair, is a non-executive director and the other three are independent members. Two new members joined the committee in 2012-13 to replace two individuals whose term had finished. An additional member joined the Committee in the first half of 2013/14. Because of these changes a formal self-evaluation of Audit Committee performance was not undertaken in 2012/13 but we understand this practice will be resumed in 2013/14. In line with usual practice the chair also formally reports to the Board on the work of the Committee on an annual basis.

52. The Executive Management Team meets monthly and is chaired by the Accountable Officer who meets regularly with the Chief Executive to discuss operational matters.

Internal control

53. While we concentrate on significant systems and key controls in support of the opinion on the financial statements, our wider responsibilities require us to consider the financial systems and controls of audited bodies as a whole. The extent of this work is informed by our assessment of risk and the activities of Internal Audit.

54. We completed a review of the range and quality of work carried out by Internal Audit and we concluded that the internal audit function operates in accordance with Government Internal Audit Standards and has appropriate documentation standards and reporting procedures in place. As a result we were able to rely on the work of Internal Audit, in terms of International Statement of Auditing 610 (Considering the Work of Internal Audit), for audit assurances in our financial statements work and on financial controls over income. Internal audit work also contributed to our evaluation of governance arrangements.

55. Overall the systems of internal control were operating effectively during 2012/13. This enabled us to take the planned assurance on these systems for the audit of the financial statements.

Governance statement

56. Registers of Scotland included a governance statement in its annual accounts in accordance with Scottish Government guidance. The statement included description and assessment of the essential components of corporate governance and details of any significant risk-related matters arising during the period. We confirmed that the statement was prepared in line with guidance and that relevant risks and issues have been included.

Risk Management Arrangements

57. RoS maintains a risk register that is in line with the requirements of the Scottish Public Finance Manual. The register is subject to regular review, including consideration as a standing item at Board, Executive Management Team and Audit Committee meetings.

58. RoS faces significant challenges as it plans to deliver and implement the requirements of the Land Registration etc.(Scotland) Act 2012 (LRA) and the Land & Buildings Transaction Tax (Scotland) Act 2013 (LBBT). The Board and Executive Management Team has established a

framework for the implementation of the LRA and LBTT projects. This will ensure that new processes are developed to support implementation and that all legal, financial and IT requirements are met within legislative timetables.

Computer Services Review

59. We completed a review of RoS's Information Technology (IT) arrangements using a well-established methodology developed by Audit Scotland known as a Computer Services Review. Our review identified that there are number of specific challenges that RoS have still to fully address, especially in the areas of:

- infrastructure improvements to enhance disaster recovery; and
- systems development to meet the requirements as set out in the Land Registration and Land and Buildings Transaction Tax legislation.

60. We found that RoS has realistic plans in place within the IT Directorate to deliver the necessary improvements, including establishing an IT Governance Group as a formal sub-committee of its Executive Management Team. The group is led by the Accountable Officer and is responsible for oversight of the delivey of the IT strategy. The group should be a strong agent of both the Board and the Executive Management Team to monitor the delivery and ensure that any potential issues are identified promptly.

61. We concluded that the governance arrangements surrounding the development and delivery of the IT Strategy have improved during the course of the last year. Board level challenge and support for the IT Directorate has been strengthened by the appointment of additional non-executive directors and audit committee members with greater IT management expertise.

Disaster Recovery

62. We reported in 2011-12 that RoS did not have adequate disaster recovery arrangments in place and the Accountable Officer has identified this as a key risk. RoS carried out some development work in 2012/13 but this work will not be completed until the second half of 2013/14. RoS also updated its business continuity plans and during 2012-13 has completed the planned exit from the BT contract and replaced it with in house provision.

63. However, as noted by the Accountable Officer in the Governance Statement this remains a significant challenge in light of RoS reliance on IT.

Refer Action Plan Point No. 3

Prevention and detection of fraud and irregularities

64. Registers of Scotland is responsible for establishing arrangements to prevent and detect fraud and other irregularity. We review and report on these arrangements.

65. RoS has appropriate arrangements in place (based on the Scottish Public Finance Manual) to help prevent and detect instances of fraud and irregularity including detailed policies in the Code of Conduct and the RoS Staff Handbook. There were no instances of fraud or irregularity reported by RoS in 2012/13.

Standards of conduct and arrangements for the prevention/ detection of bribery and corruption

66. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We consider whether bodies have adequate arrangements in place.

67. We are satisfied that RoS has adequate arrangements in place (based on the Scottish Public Finance Manual) to help meet its responsibilities in this regard.

Outlook

68. The current environment of significant organisational change, uncertainity about income and increasing responsibilites to be delivered to inflexible legislative timetables is one in which the organisation's governance and accountability arrangements will be tested.

69. Key changes ahead include implementation in November 2014 of the Land Registration etc. (Scotland) Act 2012, and support for the collection of Land and Buildings Transaction Tax from 2015. Effective management and oversight of these areas and of the development of in-house IT service provision will be essential, with significant challenges in ensuring that preparatory work and systems are completed and tested in time to meet the LRA timetable.

Best Value, use of resources and performance

70. Audited bodies have responsibility to ensure that arrangements have been made to secure best value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. Where such requirements are not specified we may, in conjunction with audited bodies, agree to undertake local work in this area.

71. As part of their statutory responsibilities, the Auditor General may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. We may be requested from time to time to participate in:

- a performance audit which may result in the publication of a national report
- an examination of the implications of a particular topic or performance audit for an audited body at local level
- a review of a body's response to national recommendations.

72. During the course of our audit appointment we also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years. We may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.

73. This section includes a commentary on the best value and performance management arrangements within Registers of Scotland. We also summarise headline performance measures used by Registers of Scotland, highlight any relevant national reports and comment on the body's response to these.

Management arrangements

Best Value

74. Scottish Government guidance for accountable officers on best value in public services requires a systematic approach to self-evaluation and continuous improvement. The guidance identifies the themes an organisation needs to focus on in order to deliver the duty of best value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

75. RoS' corporate plan for 2013-16 sets out an approach to best value that will include regular twice yearly reports to the RoS Executive Management Team and an annual report to the RoS Board and Audit Committee.

Performance management

76. Scottish Ministers set RoS three key targets for 2012/13 to achieve: 3% cash releasing efficiencies for the year to 2012/13, an increase of 5% in income from commercial activities, and a headcount reduction of 5%.

77. The RoS Corporate Plan 2013-16 sets out the aims and high level priorities for RoS over the current spending review period and includes key objectives which supports the Scottish Government's Strategy to drive sustainable growth and develop a more resilient and adaptable economy. The Keeper also set seven business targets for 2012/13 as a means of monitoring operational efficiency.

78. Progress and performance information is provided quarterly to the RoS Board and the quality of service is measured through the achievement of KPIs and service indicator measures. Annual performance is reported in the RoS Annual report and accounts

79. Internal audit reviewed RoS's Key Performance Indicators in 2011 and reported that RoS's Performance Indicators covered internal and external factors and encompassed both financial and non-financial measures. The 2013-16 Corporate Plan demonstrates that strategic objectives, and KPIs, have been aligned to Scottish National Outcomes.

80. RoS has stated its commitment to the protection of the environment, in line with Scottish Ministers commitment to sustainable development. RoS has set targets to achieve a year on year reduction of 2.5% in energy consumption and paper usage, a 2% reduction in water consumption and a 1% reduction in waste sent to landfill.

Overview of reported performance in 2012/13

81. RoS's reported performance against targets set by Scottish Ministers and the Keeper is close to the targets.

Performance Targets - Scottish Ministers

82. RoS reported that it exceeded two of the three performance targets set by Scottish Ministers and narrowly missed the target to achieve an increase in income from commercial activities. Reported performance is summarised below:

    - RoS delivered 4.8% cash releasing efficiencies in 2012/13 against a target of 3%. This was largely due to process changes in Registration that allowed RoS to deliver their work with fewer staff.
    - RoS achieved an 11.7% reduction in head count against an SG target of 5%.
    - RoS achieved a 4.5% increase in income from commercial activities which missed the SG target of 5%.

Performance Targets - Sustainability

83. RoS has set targets to achieve a year on year reduction of 2.5% in energy consumption and paper usage and a 1% reduction in landfill. RoS has prepared a Sustainability Statement where it reports mixed performance in 2012-13 against its environmental targets.

- Overall electricity consumption increased by 1.5% across RoS sites; the increase was mainly due to ongoing building works at Meadowbank House.
- Overall gas consumption increased by 26%; the increase was mainly the result of increases in the number of staff based in Meadowbank House.
- Overall water consumption increased by 46%; due to building activity and increased staff numbers in Meadowbank House with an unexplained increase in the Glasgow premises.

84. Over the previous four years RoS has reported significant cumulative reductions above its targets and RoS will continue to monitor performance in this area.

Performance Targets - Keeper

85. Exhibit 4 highlights RoS's performance against the seven business targets set by the Keeper for 2012-13. Of these, RoS has reported that it had achieved three and narrowly missed three of these targets.

Exhibit 4: Performance targets and reported outturn

Target	Outturn	Comment
80% of Sasines writs being despatched in 20 days	Exceeded .	All Sasine Deeds received were dispatched within 20 days
Complete the registration of non-ARTL Dealings with Whole (DWs) and First Registrations (FRs) within an upper limit of 120 working days. 80% to be completed within 60 working days.	Exceeded	100% of standard FRs were completed within 60 working days (This compares with 99.2% in 60 working days the previous year.) 98% of non-ARTL DWs were completed within 60 working days (This compares to 98.8% in 60 working days the previous year.)
Complete the registration of DWs carried out as ARTL transactions within 24 hours	Missed	99.99% achieved. Only one application out of 14,302 was not completed within the timescale.
Record all applications for registration on the application record within one working day.	Missed	99.7% achieved. In 2012/13 RoS received 253,408 applications. Of these 123 were missed due to industrial action; 339 were missed due to IT failure; and 250 were missed on 24 December due to exceptionally high intake.

Target	Outturn	Comment
Complete pre-1 April 2012 First Registration casework by 31 March 2013	Missed	96% achieved. This was missed by only a few hundred complex cases. The total number of FRs completed in 2012/13 was slightly more than in 2011/12 (101%) and was achieved with lower staffing levels (83%). The level of arrears is at its lowest level since the 1980s.
Complete pre December 2012 casework by 30th September 2013.	Target to be reported in October 2013	N/A
Complete 98.5% or more of registrations, over a 12 month rolling period, without corrective action.	Exceeded	99.1% of registrations completed without corrective action.

Source: *RoS Performance and Financial Management Report (May 2013) and audited financial statements 2012/13*

National performance reports

86. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in Exhibit 5 below.

Exhibit 5: A selection of National performance reports 2012/13

- The National Fraud Initiative in Scotland (May 2012)
- Managing early departures from the Scottish public sector (May 2013)

Source: www.audit-scotland.gov.uk

Managing early departures from the Scottish public sector (May 2013)

87. Managing early departure from the Scottish public sector was published in May 2013 and aims to remind public organisations of the principles of good practice in managing early departures. Key messages delivered in this report include:

- Scotland's public bodies need to be more consistent in how they manage schemes allowing staff to take early retirements and redundancies, and be clearer about the costs and benefits
- early release schemes can provide significant savings, and most public bodies generally follow good practice but there are striking differences between the schemes and a marked inconsistency in how much bodies tell the public about the costs and expected savings. The report makes a number of recommendations to help public bodies improve this
- almost 14,000 employees took such packages between 2010 and 2012 – around one in 40 of all public sector staff – at a cost of more than £500 million.

88. RoS had a Voluntary Exit scheme in place over the last 2 financial years with 152 staff leaving in 2012-13 and 126 in 2011-12. The objectives of the scheme were to reduce headcount and staff costs and to offer more flexibility in deployment of staff. We understand that RoS has confirmed its approach was consistent with the best practice outlined in the report in all material respects. RoS should keep the findings of the report under review when considering any future voluntary severance scheme.

Arrangements to consider national performance reports

89. RoS has arrangements in place to consider the findings of national performance audit reports. The Audit Committee considers a list of national Audit Scotland reports that have been published since the previous meeting and discusses whether examination of the reports is needed.

Outlook

90. RoS faces a challenging timescale in terms of developing systems and structures to meet the timetable for the implementation of the Land Registration etc (Scotland) Act 2012 and the Land and Buildings Transactions Tax which are due to come into effect in November 2014 and April 2015 respectively. The Board needs to ensure that its management and governance structures are operating effectively to monitor and scrutinise performance and delivery properly.

Appendix A: audit reports

External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	February 2013	February 2013
Key financial controls assurance report	16 June 2013	1 August 2013
Report on financial statements to those charged with governance	23 July 2013	1 August 2013
Computer Services Review	23 July 2013	1 August 2013
Audit opinion on the 2012/13 financial statements	24 September 2013	24 September 2013

Appendix B: Action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	22	**Compliance with FReM - discounting provisions** RoS does not fully comply with the Financial Reporting Manual (FReM) in accounting for early retirement provisions. The FReM requires that future cash flows should be discounted using discount rates approved by Treasury. RoS does not currently discount the early retirement provision although the cash flows will continue for more than 5 years. **Risk** Failure to comply with the FReM increases the risk of material misstatement in the financial statements.	We will apply the appropriate discounting to the relevant cash flows in our annual accounts for FY 2013/14 and disclose this in line with the provisions of the FReM	John Fanning - Director of Finance	April 2014
2	34	**Financial Sustainability** RoS has reported operating losses for the past 5 years (including this year), and over the last 5 years retained profit reserves have fallen from £144 million to £61 million. Action has been taken to	A similar risk was identified in this report last year and the remedial actions we propose this year are similar to those identified last year namely: • careful monitoring of	John Fanning - Director of Finance	By 31 December 2013 if possible

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		increase income and reduce costs as part of a strategy to achieve financial balance by 2014/15. **RISK** RoS may find it difficult to maintain a sustainable financial position in the current economic climate and in a period when RoS also has to implement a challenging development programme in advance of the commencement of the Land Registration etc (Scotland) Act and the Land and Buildings Transactions Tax.	income • better understanding of how our costs respond to the mix of work we undertake • operational process improvements • careful control of overhead with a particular focus on IT costs We will also continue to review our reserves policy and approach on a regular basis. However we would also note that the impact of LRA is likely to be very significant in financial terms and that the precise financial impact of the new Act has still to be fully modelled in some material respects. This work will be a priority over the next few months so that the impact can be included in our budget for 2014/15 and the Corporate Plan for 2014/17		
3	62	**Disaster recovery** RoS carried out some development work on its disaster recovery arrangments in 2012/13 but	Our published IT strategy and associated operating plans include a number of projects designed to mitigate these IT risks	Hugh Bruce-Gardyne - Chief Technology Officer	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		this work will not be completed until the second half of 2013/14. **RISK** The absence of a viable disaster recovery plan increases the risk of RoS not being able to recover its business capability in the event of a major IT system failure.	whilst at the same time improving our general IT infrastructure. We undertook the first of a series of important server upgrades in late September 2013 which have proved successful and have mitigated (but not eliminated) the risks associated with these pieces of hardware. Further upgrades are planned between now and the end of 2013. If subsequent upgrades are as successful as the initial ones we will have a) reduced the likelihood of and b) improved our capacity to recover from any significant IT failure. This does not eliminate this risk but it does both reduce the likelihood and mitigate the impact of any such failure		